

Integrated Solutions for Public Power



ENGINEERING & OPERATIONS



CUSTOMER CONNECTIONS



BUSINESS & FINANCE



SYSTEM IMPROVEMENT



Public Power Governance

City of Riverside Public Utilities
August 28, 2015

Hometown Connections®
DELIVERING VALUE TO PUBLIC POWER

Hometown Connections®

DELIVERING VALUE TO PUBLIC POWER

**Over 850
Public Power
Clients**

**Established
in 1998**

**Solutions Supporting
Technological, Financial
and Human Infrastructure**

**Savings to Public Power:
\$17 million**

Management Consulting Services

Subsidiary of APPA

**Products and Services
Designed for Public Power**

**Partnerships with
22 joint action agencies
and state associations**

Integrated Solutions for Public Power

10 Governance Questions

1. How is the organization doing?
2. Who are our customers (and how are they doing)?
3. What could really hurt us in the next few years?
4. How are we doing relative to competitors?
5. Are we as efficient as possible?
6. Where do we want to be in ten years?
7. Are we providing the GM with appropriate resources?
8. If the GM were hit by a bus tomorrow, who'd take over?
9. Is the City Council/Utilities Board as effective as it can be?
10. Does the community know the value of its public power utility?

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Public Power Governance Types

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Public Power Governance Structures

- City council
- Independent utility board
- “Shared authority” (city council and utility board)
- Utility district
- Municipal corporation

Primary Governing Body*

Customers	Responses	Independent Board		City Council
		Elected	Appointed	
< 5,000	323	9%	23%	68%
5,000 to 20,000	134	19%	42%	39%
20,000 to 50,000	47	23%	34%	43%
> 50,000	30	23%	54%	23%
Total	534	14%	30%	56%

* From APPA 2015 Governance Survey

Exercise of Specific Authorities*

Primary Governance = City Council

Authorities	Responses	City Council	Other
Set retail electric rates	6	100%	0%
Approve utility budget	7	100%	0%
Set salaries of key utility officials	6	50%	50%
Issue long-term bonds	6	100%	0%
Make financial investments for utility	6	67%	33%
Approve purchased power contracts	6	83%	17%
Exercise right of eminent domain	6	100%	0%
Hire and fire utility personnel	6	33%	67%

* Results are for utilities with greater than 50,000 customers that are governed primarily by a city council. From: APPA 2015 Governance Survey.

Exercise of Specific Authorities*

Primary Governance = Independent Utility Board

Authorities	Responses	Independent Utility Board	City Council	Other (1) (2)
Set retail electric rates	23	70%	30%	0%
Approve utility budget	23	70%	30%	0%
Set salaries of key utility officials	23	87%	9%	4%
Issue long-term bonds	23	57%	39%	4%
Make financial investments for utility	23	78%	4%	18%
Approve purchased power contracts	23	83%	4%	13%
Exercise right of eminent domain	23	52%	39%	9%
Hire and fire utility personnel	23	57%	0%	43%

* Results are for utilities with greater than 50,000 customers that are governed primarily by an independent utility board. From: APPA 2015 Governance Survey

Evaluation Criteria Compared to Austin Governance Structure*

Models	Independent Electric Utility Board	Independent Board Management/City Council Approves Rates	Independent Board Management/City Council Approves Debts and Budgets	Independent Board with City Council Oversight
Examples	Greenville Electric Utility Board	CPS – San Antonio	Jacksonville Electric Authority	LADWP
Speed of decision making	Positive	Positive	Positive	Positive
Focus/vision of electric utility	Positive	Positive	Positive	Positive
Continuity of electric utility policy	Positive	Positive	Positive	Positive
Coordination with other city programs/policies	Negative	Negative	Negative	Neutral
Accountability to city government and ratepayers	Less Direct	Less Direct	Less Direct	Less Direct
Control of day to day utility operations	Positive	Positive	Positive	Neutral
Impact on credit rating	Positive	Positive	Positive	Positive

* Study of Public Power Utilities For City of Austin – Feb '96

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Public Power Governance Best Practices

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Governance: Purpose

Represent the owners interests in protecting and enhancing their asset.

Governance: Defined

The process by which a governing body, in partnership with management:

- Determines the direction and goals of the organization
- Assures goals are achieved
- Meets legal and fiduciary responsibilities
- Continually improves organization
- Provides accountability to the owners

Governance: Role

- Represent the interests of utility customers and the community as a whole (Fiduciary)
 - Utility Budget and Rate approvals
 - Purchasing approvals
 - Maintaining fiscal oversight while ensuring a fair rate of return to the owner/municipality
 - Hire/Fire/Review of the utility general manager
- Formulate strategic planning and policy development that focuses on key utility priorities
 - Be part of strategic planning process

How much involvement is too much...or too little?

- The key is what kind of involvement
 - Provide predictability
 - Respect reporting relationships
 - Provide the manager regular feedback
 - Focus on strategy and priorities: reliability, customer service, rates, value

Quality Governance Characteristics

- A clear sense of the purpose of the organization and a unified view of its future direction
- An effective working relationship with the GM, that results in the successful implementation of policy direction and goals
- Individual city council/utilities board members who are interested, engaged, effective and meet their fiduciary responsibilities

Effective Governance

1. Meet legal/fiduciary duties
2. Set strategic direction
3. Monitor performance
4. Assure effectiveness of general manager
5. Assure effective city council/utilities board performance

1. Statutory Duties

- **General Responsibilities**
 - Obligations imposed by state and local statutes; city charter (*control and oversee utility operations, employ a qualified general manager, furnish reasonable service, provide just and reasonable rates*)
- **Ethics**
 - Requirements that prohibit personal interests from conflicting with faithful performance of official duties (*using public position for personal gain; gift laws, conflicts of interest, influence peddling*)
- **Public Access**
 - Requirements that deliberations and decision making be accessible to the public (*open meetings and records laws*)
- **Federal Laws**
 - **Energy** – Federal Power Act, National Energy Policy Act, FERC orders
 - **Other** – Civil rights, anti-trust, environmental, IRS, OSHA, FLSA

1 (a) Fiduciary Duties

- **Fiduciary** *Acts in the best interest of a 3rd party, as in trustee to beneficiary. Two duties:*
 - **Care** – Act in good faith, on an informed basis, exercise prudent judgment, approach job with reasonable diligence, protect and improve asset (*attend meetings, make inquiries, receive/rely on competent information, avoid delegation of trustee duties, communicate material facts to owners*)
 - **Loyalty** – Act in best interest of organization, not for personal gain or gain of others at organization's expense (*conflict of interest, "smell" test*)
- **Liabilities** *(Assuming the consequences of one's actions, or failure to act, when there is a duty to act)*
 - Breach of contract
 - Negligence; personal, vicarious
 - Discretionary vs. ministerial acts
- **Protections** *(When actions are within the scope of authority and meet fiduciary responsibilities)*
 - Statutory limitations (except in cases of breach or failure to perform duties, or willful misconduct or reckless/wanton disregard for safety, property or human rights)
 - Indemnification (directors and officers insurance)

2. Strategic Direction

City Council/Utilities Board's role: Approve organization's long-term business plan and periodically review and update it.

- Purpose:**
- Identify services that assure delivery of value to members/customers
 - Focus activities of governance and staff
 - Adapt to changing business conditions
 - Measure progress toward priorities

2. Benefits of Strategic Planning

- Articulation, focus and alignment on Values/Priorities
- Employee Ownership/Empowerment
- Customer Support
- System improvement
- Budget Management
- Continuity through changing staff and governing city council/utilities boards

2 (a) Strategic Direction

“In Fitch’s opinion, the most important rating factors for public power systems [are] management and business strategy. ...Solid management (including the board), a well-defined business strategy, and a flexible operating plan are essential elements for a utility to keep its competitive edge in this rapidly changing business.”

*Public Power Rating Guidelines
Fitch Ratings Service*

3. Monitor Performance

City Council/Utilities Board's role: Review key performance indicators to determine the effective operation of the organization and protect and enhance the owners asset.

- Purpose:**
- Provide financial stewardship for owners
 - Align operations with strategic direction
 - Identify key performance indicators to assure organization is effectively managed

City Council/Utilities Board Stewardship:

1. What should your governing body know to assure the organization is functioning effectively?
2. What should your governing body do to encourage high performance?
3. What should your community know about utility performance?

How Performance Is Measured

- Subjective assessments
- Expenditures/workload volume
- Benchmarks/standards
- Ratio comparisons
- Key performance indicators
- Balanced scorecard

See examples in Appendix

4. Effective General Manager

City Manager: Take the necessary actions (hiring, directing, delegating, evaluating, rewarding, correcting, replacing) to assure effectiveness of GM.

- Purpose:**
- Provide the GM with the direction, resources, and authority needed to successfully lead the organization
 - Focus the city council/utilities board's attention on priorities
 - Establish measures to determine effective GM performance.

4 (a) Defining Roles

Governing Bodies

+

Executive Leadership

What Governing Bodies do

What Governing Bodies need

How effectiveness
measured

What GM does

What GM needs

How effectiveness
measured

4 (b) GM Performance Evaluation

Process for the City Manager/governing bodies to:

1. Reach consensus on the future direction of the organization
2. Develop goals for organization and GM to realize that future
3. Agree on targets and measures of GM performance

5. Effective Governance Performance

City Council/Utilities Board's role: Evaluate its own policies, operations, practices and performance, and implement improvements.

- Purpose:**
- Assure fiduciary responsibilities and policy responsibilities are met.
 - Identify ways the City Council/Utilities Board can improve its effectiveness as governing bodies.

5 (a) Is Your City Council/Utilities Board...

- An asset to the organization
- A liability to the organization
- Have no impact on the organization?

5 (b) Common Problems

- Too much time on trivial (*focus of meetings*)
- Short-term bias (*budget vs. goals*)
- Reactive stance (*strategic perspective*)
- Leaky accountability (*delegations to management*)
- Role Confusion (*city council vs. utilities board vs. city manager vs. management responsibilities*)

Rubber Stamp ←————→ **Micromanage**

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In Summary

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10 Governance Questions

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Indicators Of An Effective Governing Body

1. Is there an understanding among city council/utilities board members on the key drivers of the organization's business?
2. Does the city council/utilities board focus on long-term trends and strategic issues facing the organization, instead of details of day-to-day operations?
3. Does the city council/utilities board have an understanding of appropriate metrics of utility performance?
4. Does the city council/utilities board have manageable agendas and allocate time appropriately at meetings?

Indicators Of An Effective Governing Body

5. Is information disseminated to city council/utilities board members before the meeting so they can prepare ahead of time?
6. Are city council/utilities board members clear with themselves and with management about the complimentary roles each must play?
7. Does the city council/utilities board see that the next generation of senior leaders are being developed within the organization?

*From “Leading from the Board Room,” by Jay Lorsch and Robert Clark, Harvard Business Review, April, 2008.



For all Governing Boards

Make clear the value of public
power to the community

Thank You

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Appendix **Performance Monitoring and Accountability**

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Benchmarking Examples



APPA – Financial/Operating Ratios

- Electric Rates
- Revenue per KWH
- Debt to Total Assets
- Debt Service Coverage
- Net Income per Revenue \$
- Uncollectible Accounts per Revenue \$
- Retail Customer per Non-Power Generation Employee
- Total O&M Expense
 - per KWH Sold
 - per Retail Customer
- Total Power Supply Expense per KWH Sold
- Purchased Power Cost per KWH
- Retail Customers per Meter Reader
- Distribution O&M Expense
 - per Retail Customer
 - per Circuit Mile
- Per Retail Customer
 - Customer Accounting, Service and Sales Expense
 - A&G Expense
- Labor Expense per Worked-Hour
- OSHA Incidence Rate (per 100 employees)
- Energy Loss %
- System Load Factor
- Net Payments/Contributions as % of Electric Operating Revenue

Greenville Utilities



- Performance Measures
 - Financial
 - Fund balance, debt service coverage, operating cash, degree of asset depreciation (age of system), capital spending ratio (investment compared to depreciation)
 - Typical customer bill comparison
 - Reliability
 - Interruptions in service, duration, response time
 - Load Management
 - Total load reduction, avoided costs
 - Efficiencies
 - Connections per employee, time required to install new service, operating cost per customer, overtime
 - Safety
 - Injury/illness rate, preventable vehicle accident rate
 - Customer Service
 - Customer satisfaction (% favorable/unfavorable), billing, responsiveness, meter reading accuracy, calls – average speed to answer

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City Utilities Springfield, MO



Strategic Business Objectives Scorecard Fiscal Year 2012 (June 30, 2012)

	Actual	Target	Industry
Utility Supply			
◆ Equivalent Forced Outage Rate ¹ Measure of generation reliability. Hours units not available at full load as a percentage of hours scheduled.	3.38%	< 3.00%	10.78% (2010)
◆ System Busbar Cost (Excluding Depreciation) ² Measure of the cost of generation. CU's generation operations and maintenance per MWh generated.	\$40.98	< \$38.00	\$37.37 (2010)
Customer Delivery			
◆ Customer Satisfaction ³ Measure of customer satisfaction with CU. From customer survey, percent of respondents Very Satisfied or Somewhat Satisfied for overall customer satisfaction.	94%	> 90%	90% (2011*)
Financial Strength			
◆ Days Cash on Hand Ability to meet the day-to-day financial obligations of the utility. Utility funds available for working capital divided by daily cash requirements. (Not including contingency reserve or market value adjustment.)	67	60-75	105 (2010)
Human Resources			
◆ Customers per Employee ² Measure of productivity. Ratio of the number of electric, natural gas, and water customers to full-time equivalent employees, excluding transit and telecommunications.	285	> 280	296 (2010*)
◆ Overtime ¹ Measure of productivity. Ratio of dollars paid in overtime to total labor dollars.	5.44% (5.32% excluding OT from storms)	< 6.50%	6.62% (2010*)
Community Responsibility			
◆ Community Services ¹ Measure of financial contribution to the community. Cash, free services, and other community services as a percentage of CU combined operating revenues.	7.5%	7.0% - 8.0%	5.3% (2010*)
Environmental Responsibility			
◆ Reportable Incidents ¹ Measure of environmental stewardship. Superfund air, water, or landfill incidents that are reportable to the National Response Center (EPA). (Additionally, the reference to NOV is the number of Notices of Violation received that are not reportable.)	2 (1 NOV)	0	0.7 (2010*)
Safety			
◆ Lost Time Rate ⁴ Measure of employee safety. Incident rate for cases resulting in absence due to work-related injuries or illnesses.	0.0	≤ 1.25	1.0 (2010)

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Alameda (CA) Municipal Power



Metric	Examples
Customer Value and Satisfaction	RKS Survey of customer satisfaction, General Fund and other contributions, % customers on auto-pay
Rates	Adequacy of reserves, percentage below PG&E, credit rating
Reliability	Duration and frequency of outages, power quality
Resources	% carbon-free electricity, energy efficiency program goal
Workforce	Turnover, Training, Employee satisfaction

Manitowoc Public Utilities, WI



Performance Indicators

EFFICIENT DELIVERY OF UTILITY SERVICES

Utility Supply

Power Plant Turbine Capacity / Availability (not including diesel or CT)
Measure of generation reliability.

Power Plant Boiler Capacity / Availability
Measure of generation reliability.

Electric Energy Production -- Fuel Cost per MW-Hr

Energy Production (fuel & Power Plant O&M only) Cost per MW-Hr

MPU Electric Energy Production -- MW-Hr

Retail Electric Sales - Total MW-Hrs Sold

SAIDI Index - Electric Distribution System Reliability
Measure of the average length of time in minutes that a customer can expect to be without power during a power outage.

Water Distribution System Reliability
Measure of the number of watermain breaks.

Water Production Cost per Million Gallons Sold (Retail)

Retail Water Sales - Millions of Gallons Sold

2011

2012

2013

15.0% / 80.0% capacity / availability	10.79% / 87.07% capacity / availability	13.76%/87.07% capacity / availability
15.9% / 86.7% capacity / availability	16.31% / 83.58% capacity / availability	20.10%/83.58% capacity / availability
\$36.62	\$44.57	\$40.27
\$53.15	\$82.38	\$79.38
194,863	83,020	114,270
515,349	515,154	520,364
48 minutes	44 minutes	11.5 minutes
32	34	41
\$607.63	\$526.94	\$547.50
1,562	1,579	1,532

Financial Strength

Electric Utility

Operating Ratio (Total Operating Expense divided by Total Operating Revenue)

Debt Ratio (Total Debt divided by Total Assets Less Contributed Capital)

Actual Return on Rate Base (Authorized by PSCW: 2010-2012 = 5.5%)

Water Utility

Operating Ratio (Total Operating Expense divided by Total Operating Revenue)

Debt Ratio (Total Debt divided by Total Assets Less Contributed Capital)

Actual Return on Rate Base (Authorized by PSCW: 2010 = 6.0% / 2011-2012 = 4.0%) *Retail

0.8597	0.8803	0.8932
50.24%	45.85%	42.37%
7.02%	7.66%	7.30%
1.0394	.8010	0.8498
19.87%	17.26%	17.00%
-0.67%	4.19%	3.18%

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Manitowoc Public Utilities, WI



EFFECTIVELY LEVERAGE RESOURCES

Human Resources

Electric Customers per Employee

Measure of productivity. Ratio of the number of electric customers to full-time equivalent employees.

251

278

266

Water Customers per Employee

Measure of productivity. Ratio of the number of water customers to full-time equivalent employees.

1243

1256

1257

Overtime

Measure of productivity. Ratio of dollars paid in overtime to total labor dollars.

4.80%

3.81%

4.46%

STEWARDS OF PUBLIC HEALTH AND ENVIRONMENT

Environmental Responsibility

Reportable Incidents

Measure of environmental stewardship. Number of incidents that are reportable to the National Response Center (EPA) or WDNR.

4

0

7

Safety

Lost Time Incidents / Total Reported Injuries

Number of work-related injuries resulting in lost time / total number of injury reports

1

0

2

RESPONSIBLE TO COMMUNITY AND CUSTOMERS

Customer Delivery

Overall Customer Satisfaction with MPU

Measure of customer satisfaction. From customer survey, percent of respondents indicating an overall rating of "B" or above.

(R = Residential Survey; C&I = Commercial & Industrial Survey)

(2011) R

86%

(2012) C&I

92%

(2013) R

86%

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Benton PUD, WA

2013 PERFORMANCE MEASURES



Value

We create and maximize customer value by providing cost-effective, efficient, and quality service

Q1	Q2	Q3	Q4
Customer Satisfaction			
Karen Miller Page 2			

Q1	Q2	Q3	Q4
Telephone Service Level			
Paula Ball Page 3			

Q1	Q2	Q3	Q4
Electronic Payments			
Paula Ball Page 4			

Q1	Q2	Q3	Q4
Service Order Process			
Rick Dunn Page 5			

Q1	Q2	Q3	Q4
Rates			
Chris Johnson Page 6			

Q1	Q2	Q3	Q4
Back Bill Rate			
Paula Ball Page 7			





Stewardship

We preserve the public's trust through our stewardship of assets, our care for the environment, and our compliance with laws and regulations

<div><div>Q1Q2Q3Q4</div><div><u>Unrestricted Reserve Level</u></div><div>Jon Meyer Page 8</div></div>	<div><div>Q1Q2Q3Q4</div><div><u>Days Cash On Hand</u></div><div>Jon Meyer Page 9</div></div>	<div><div>Q1Q2Q3Q4</div><div><u>Costs per kWh v. COSA</u></div><div>Kent Zirker Page 10</div></div>	<div><div>Q1Q2Q3Q4</div><div><u>O&M/Capital</u></div><div>Kent Zirker Page 11</div></div>	<div><div>Q1Q2Q3Q4</div><div><u>O&M Costs per Customer</u></div><div>Kent Zirker Page 12</div></div>	<div><div>Q1Q2Q3Q4</div><div><u>Collections</u></div><div>Paula Ball Page 13</div></div>
<div><div>Q1Q2Q3Q4</div><div><u>Safety</u></div><div>Steve Hunter Page 14</div></div>	<div><div>Q1Q2Q3Q4</div><div><u>Training and Development</u></div><div>Allison Jubb Page 15</div></div>	<div><div>Q1Q2Q3Q4</div><div><u>Hiring Efficiency</u></div><div>Allison Jubb Page 16</div></div>	<div><div>Q1Q2Q3Q4</div><div><u>Day Ahead Power Price vs. ICE</u></div><div>Dan Bickford Page 17</div></div>	<div><div>Q1Q2Q3Q4</div><div><u>Average Unit Price - Sales for Resale</u></div><div>Dan Bickford Page 18</div></div>	<div><div>Q1Q2Q3Q4</div><div><u>Conservation I-937</u></div><div>Chris Johnson Page 19</div></div>

Reliability

We maintain high standards of reliability in providing products and services that are essential to the quality of life

																			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Broadband Network Reliability				Energy Loss Percentage				Reliability Indices				Electric System Outages				AMI Read Efficiency			
Rick Dunn Page 20				Rick Dunn Target Q4 2013				Rick Dunn Page 21				Rick Dunn Page 22/23				Chris Folta Target Q4 2013			

Legend

The color assigned for each measure is a subjective evaluation of both the quarterly results, shown in the quarterly squares as well as the outlook for the calendar year compared to established targets, shown in the large box. The legend below provides general guidance for assigning colors.

- Positive performance - positive year-end outlook and exceeding quarterly expectation
- Improvement needed - concern about year-end outlook and less than quarterly expectation
- Adverse performance - negative year-end outlook and negative quarterly performance
- Data not available or no activity during the quarter

Q1	Q2	Q3	Q4
Indicator Title	Year-end Outlook		

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